

VZCZCXRO7516

OO RUEHDBU RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHLJ #0388/01 1730530

ZNY CCCCC ZZH

O 220530Z JUN 06

FM AMEMBASSY LJUBLJANA

TO RUEHC/SECSTATE WASHDC IMMEDIATE 4943

INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE IMMEDIATE

RUCPDOC/DEPT OF COMMERCE WASHDC IMMEDIATE

RHEHNSC/NSC WASHDC IMMEDIATE

RUEKJCS/SECDEF WASHDC IMMEDIATE

RUEAIIA/CIA WASHDC IMMEDIATE

RUEKDIA/DIA WASHDC IMMEDIATE

RUEKJCS/Joint STAFF WASHDC IMMEDIATE

RUFGSHB/USCINCEUR SHAPE BE IMMEDIATE

RHMFIUU/USEUCOM VAIHINGEN GE IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 03 LJUBLJANA 000388

SIPDIS

NOFORN

SIPDIS

DEPT FOR EUR/NCE - TRIM, PM/RSAT - DOWLEY

OSD FOR SADOWSKA

JOINT STAFF FOR MANTIPLY

DOC FOR BIS/DPD - NEWSOM

VIENNA FOR HOUGHTON

E.O. 12958: DECL: 06/22/2016

TAGS: EIND MARR MCAP PGOV SI

SUBJECT: SLOVENIA: FINNISH PATRIA WINS 300 MILLION USD

DEFENSE CONTRACT

Classified By: COM Thomas B. Robertson for Reasons 1.4 (b,d)

¶1. (C/NF) SUMMARY: On June 12, the Slovenian Ministry of Defense (MOD) announced that Finnish defense contractor Patria Vehicles had won the GOS's 330 million USD (63 billion tolar) defense contract to supply 136 8x8 armored wheeled vehicles by 2012. The only other bidder on the tender was Slovenian defense company Sistemska Tehnika (ST), which is 70 percent owned by Slovenia-based Viator & Vektor (V&V) and 17 percent owned by Austria-based Steyr-Daimler-Puch, which, in turn, is a wholly-owned subsidiary of the General Dynamics (GD) corporation. On June 15, COM met with V&V Board Chairman Zdenko Pavcek and GD European Land Combat Systems President Michael Malzacher to discuss the case. Both complained of a lack of transparency and noted that the decision had been made much sooner than anticipated. Viator & Vektor has requested an audit of the tender and on June 19 COM sent a letter to Prime Minister Janez Jansa supporting this request. During a June 21 luncheon with outgoing CHOD Major General Ladislav Lipic, the subject was discussed and Lipic's body language suggested that he questioned the merits of the Patria offer. END SUMMARY.

¶2. (SBU) On June 12, the MOD announced the results of the tender and commented on the three major criteria according to which the decision was made: (1) technical merits, (2) economic benefits, and (3) commercial benefits. The technical merits of the vehicles were evaluated by an MOD committee consisting of 15 members (chaired by Brigadier Bojan Pograjc, currently enrolled in a Master's Program at NDU) and by an external review of the University of Ljubljana's Faculty of Mechanical Engineering. The MOD journal "Slovenska Vojska" ("Slovenian Armed Forces") notes that 643 technical data were evaluated, and quotes committee member Brigadier Branimir Furlan as saying the Patria AMV's technical capabilities were "superior" to that of V&V's "Krpan."

¶3. (C/NF) In terms of economic benefits, "Slovenska Vojska" quotes the Ministry of Economy's Peter Stavanja, Chair of the Interministerial Working Group on Offsets. Stavanja claimed that whereas Sistemska Tehnika assured the creation of 180 direct new jobs, 92 indirect jobs, and the inclusion of 20

Slovenian companies in the production process, Patria guaranteed the creation of 320 direct new jobs, 1,920 indirect jobs, and the inclusion of 50 Slovenian companies in the production process. (COMMENT: The huge discrepancies between these figures likely result either from vastly different computational methodologies or simply from unabashed "padding" of the numbers by Patria. END COMMENT.) Finally, in terms of the commercial benefit, the article quotes Defense Minister Karl Erjavec as saying that the Patria AMV was 10-18 percent less expensive (depending on the particular configuration of the vehicle) than V&V's Krpan.

¶4. (SBU) The following is a rough timeline of the tendering process based on documents provided by Viator & Vektor:
May 4: MOD requests submission of technical data from both Patria and Sistemska Tehnika
May 15: ST delivers its technical data to the MOD
May 16: MOD extends the deadline for submitting technical data until May 29
May 25: University of Ljubljana's Mechanical Engineering Faculty concludes its external technical review
May 29 (9:00): ST delivers an additional 1,454 pages of technical data to the MOD
May 29 (15:00): MOD Evaluation Committee Issues its final evaluation in favor of Patria
May 31: University of Ljubljana issues its preliminary report on the technical results of its evaluation
June 7: University of Ljubljana issues its final report on the technical results of its evaluation
June 12: MOD publicly announces that Patria is the winner of the tender

¶5. (C/NF) On June 15, COM met with V&V Board Chairman Zdenko LJUBLJANA 00000388 002 OF 003

Pavcek and GD Europe President Michael Malzacher. Both Pavcek and Malzacher expressed their disappointment with the result of the tender and complained about the lack of transparency in the process. Malzacher said he had been expecting a decision in the "October-November timeframe." Malzacher also noted that GD/Steyr had recently beaten Patria in deals in Portugal, Belgium, and the Czech Republic, and opined that it was "difficult to believe" that Patria could have offered a 10-18 percent price advantage over V&V's product. Furthermore, with respect to the economic impact of the two offers, Malzacher claimed it was inconceivable that Patria's production of 136 vehicles would create 320 new direct jobs and 1,920 indirect jobs, as Patria claimed it would. Complaining that the "whole thing is non-transparent," Malzacher insinuated that Patria was competing unfairly. COM noted that he had advocated on behalf of GD with both the Prime Minister and the Minister of Defense and promised to address a letter to the Prime Minister urging maximum transparency.

¶6. (SBU) On Friday June 16, DefMin Erjavec traveled to Ravne-na-Koroskem, where Sistemska Tehnika and Viator & Vektor have their headquarters, for a town-hall meeting with municipal councilors. Emotions flared during the meeting, as the former Mayor of Ravne Ivana Klancnik called the deal "national treason." Erjavec stuck by his claim that Patria had offered a more competitive bid. Other MOD committee members backed the Minister up, including Deputy Minister Franci Znidarsic, Dr. Miha Matek, Brigadier Furlan, and Peter Stavanja from MOE. On Monday July 19, V&V workers staged a protest in front of the MOD, attracting considerable media coverage.

¶7. (C/NF) On June 21, COM hosted a lunch in honor of outgoing CHOD MG Ladislav Lipic (who retired on June 1), together with Brigadier Alojz Jehart, Colonel Dragan Bavcar, and Lieutenant Colonel Vjekoslav Jurcan from the General Staff. Though COM had intended to raise the issue of the 8x8 tender, Lipic surprised us by raising the issue first, asking COM for his opinion on the matter. After COM expressed concern that the process had not been as transparent as it could have been and

noted that the job-creation numbers did not seem to add up, Lipic smiled and noted that he was "a logistics officer." He then diplomatically refused to say anything further, and noted that Colonel Bavcar had been one of the members of the MOD's professional evaluation committee. Bavcar assured COM that everything had been "done by the book." He also noted that the MOD committee had had no role in the evaluation of the commercial or economic benefits since this was "outside its competency."

¶8. (SBU) On June 21, Patria and its Slovenian representative, Rotis, announced that Slovenian home appliance maker Gorenje would form a joint venture to produce the AMV in Slovenia. The Slovenian Press Agency quoted Patria CEO Jorma Wiitakorpi as saying "We have agreed that Slovenian companies will take a majority stake in this project...This will obviously be a product made in Slovenia for Slovenian buyers." Though Gorenje and Patria have been trying to woo Sistemska Tehnika to take part in the production of the AMV in Slovenia, ST President Joze Studencik categorically denied that his company would help in the production of the competing vehicle and cited legally-binding competition clauses that made such cooperation impossible. While Gorenje will take the lead in assembling the Patria, it is unclear when Patria's Slovenian production line will be ready, and some media have reported that the first 64 vehicles (47 percent of the order) will be built in Finland.

¶9. (C/NF) COMMENT: On June 22, the Commander of the Training and Doctrine Command, Brigadier Jozef Zunkovic (strictly protect), told ODC Chief that the decision had been "political" and that the Patria was "not the vehicle we (i.e. the military) wanted." While the words "suspicion of corruption" have appeared in the press, there is no smoking gun thus far that would challenge Colonel Bavcar's assertion

LJUBLJANA 00000388 003 OF 003

that the tender had been conducted "by the book." The crucial question hinges on the methodology used to compare the two offers' economic and commercial benefits. Absent an explanation of why one offer's commercial/economic benefits were so far and away superior to the other's, questions of impropriety are likely to continue to dog this deal, and by implication, the MOD. The Slovenian parliamentary Defense Committee (led by opposition MP Anton Anderlic) will meet on June 27 to discuss the tender. Post will continue to monitor this issue and advocate for maximum transparency in the process.

ROBERTSON